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2 February 1968

MEMORANDUM FOR: Director of Central Intelligence
SUBJECT : Pricing the Soviet Military Machine

1. At our pre-USIB meeting on 11-8-67, you asked at one point, "Who takes these estimates we make and hangs them all together on the wall to see if the Soviets can afford what we credit them with?" The answer, of course, is, we in CIA do.

2. Specifically, this is a major and continuing responsibility of the Office of Strategic Research. Moreover, this is a unique responsibility of CIA, for the work OSR does on Soviet military economics is not duplicated elsewhere in the Community. This is by agreements reached between Mr. McCone and the Secretary of Defense in 1964. OSD and DIA in particular depend on us for this analysis, and we service requests from them.

3. In addition to giving you a brief explanation of the military-economic process to put in your pocket -- it is attached to this memorandum -- I thought it would be useful to have OSR answer your question on adding up the Soviet military estimates. The objective of OSR's program analysis is to assure that the estimates of Soviet military forces -- missiles, aircraft, ships, tanks, men -- don't make the Soviet soldier look either larger or smaller than he is.

4. Using the 1967 estimate cycle as the example, we started with analysis performed for NIE 11-8-67. Each responsible OSR branch prepared detailed force statements on the production and procurement of major military hardware (missiles, submarines, bombers), on

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the construction of sites or bases, and on the operational deployment of military units for each year under study. Then we put these data on the computer and integrated them with previously prepared operating cost factors and equipment prices.

5. These calculations told us that the Soviet commitment to the strategic attack mission absorbed resources equivalent to \$6.3 billion in 1967. They also told us what the cost of this mission would be during each of the next ten years, if these forces evolve as estimated.

6. The process was repeated as we worked on NIE 11-3 for the Soviet strategic air and missile defense mission, and on NIE 11-14 for the general purpose forces.

7. We are now reexamining the force statements, updating them on the basis of the latest intelligence, and adding in such matters as Soviet expenditures for military research, development, test, evaluations, and space. This will all go on the computer in time to back up the preparation of NIE 11-4 on Soviet military policy.

8. The OSR results are meshed with OER estimates for civilian economic activities to round out the estimate of the USSR's GNP. In this way, we can evaluate the economic feasibility or impact of the estimated military activities.

9. The work of OSR in effect re-creates the Soviet military budget in detail comparable to the Five Year Defense Program and the budget submission of the Secretary of Defense. This is how we hang all the estimates up together and examine their impact on the Soviet economy.

/s/

R. J. SMITH

Deputy Director for Intelligence

Attachment: a/s

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